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2008 Tax Season Newsletter

DON'T FORGET THE CD. Not the bank or credit union certificate of deposit, but your income tax compact disk (CD). If we have given you a CD copy of your tax returns, bring it in with this years tax documents and we'll add your 2007 return to the disk. You will still get your paper copy.

SCAM ALERT! Beware of email scams. The IRS does NOT send unsolicited email and never asks taxpayers for PIN numbers, passwords or similar secret access information for credit card, bank or other financial accounts. The \$80 credit from the IRS for participating in an online customer satisfaction survey is a SCAM.

Avoid mortgage scams. If you are having trouble making your house payment call the National Foundation for Credit Counseling at 800-388-2227. If you are 62 or older, own your own home and are having trouble meeting monthly living expenses, a reverse mortgage may help you. If you expect to sell your home within 5 years or want to leave your home to your children this may not be the best idea for you. Otherwise talk to your bank or financial institution and see if a reverse mortgage may be for you.

PAVED PARKING. Our office driveway and parking area is now paved. This will eliminate the mud and the ruts this spring that I am sure many of our late filers have noticed. Early filers have to contend with ice and slippery conditions and the pavement may help with that also.

SOCIAL SECURITY RECIPIENTS GET 2.3% RAISE. In 2008 the typical retired worker who received \$1055 monthly will get a \$24 raise to \$1079 a month. The Medicare premium will increase 3.1%, or from \$93.90 to \$96.40, a \$2.50 per month increase.

RANDOM AUDITS. In October 2007 the IRS began selecting 13,000 tax returns for random audit (initiated even if NO wrongdoing was suspected). Since roughly 160 million returns where filed there is only a .008% chance of anyone being selected for one of these random audits. About 1 in 16 taxpayers with incomes over \$1,000,000 were audited last year. Total individual returns audited were 1.3 million last year which is a little less than 1 in 100 returns being audited. The statute of limitations on tax returns is three years, but can be extended if the IRS suspects serious under-reporting of income. There is no statute of limitations for failure to file a return or if tax fraud is suspected.

TOP FIVE RED FLAGS FOR AUDIT.

1. Living in Los Angeles, ND, SD, MN, CA, Manhattan, Brooklyn, AZ, NV, NM, South FL or Houston.
2. A return that includes a business that makes less than \$25,000 per year, or if you do not have a business and file form 1040A (short form) and make less than \$25,000 per year.
3. 1040 Schedule C sole proprietorships are ten times more likely to be audited than S or C Corporations. Why? The IRS knows most sole proprietors do not have great record keeping systems.
4. Under-reporting income. The IRS receives copies of K-1s, 1099s, W-2s. If you fail to report these items or report a different amount your return will get pulled for inquiry.
5. If you have a complex return and prepare it yourself or have a preparer listed on the IRS's problem preparer list you are more likely to be audited.

Source: NSTP Federal Tax Alert – Nov. 2007

PERSONAL & BUSINESS INCOME TAX RETURNS, PAYROLL PROCESSING & PAYROLL TAX RETURNS, SALES TAX RETURNS, ACCOUNTING & BOOKKEEPING, INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)*, MUTUAL FUNDS*, COLLEGE 529 PLANS*

*Securities offered through H.D. Vest Investment ServicesSM, A non-bank subsidiary of Wells Fargo & Company, Member: SIPC, 6333 North State Highway 161, Fourth Floor, Irving, TX 75038, (972) 870-6000

www.barkerbusiness.com. Check out our webpage. There is information for both individuals and businesses as well as links to IRS, Maine Revenue, many other sites, and even free software.

WHO'S IN YOUR WALLET? The Capital One Barbarians always ask "What's in your wallet?" Perhaps a better question is "Who's in your wallet?" Carol Palesky (East Accounting Services) of Topsham, ME has had suit filed against her by the Justice Department to keep her from preparing tax returns for others. You may remember her from the 2004 election question 1 regarding the property tax cap. She is currently serving a 160 month sentence for theft by misapplication. She was accused of taking funds from a client. Employees, bookkeepers and others with access to their employer's money, checks, credit cards, etc. have been found guilty of stealing from their employers. I don't think this crime is going to stop anytime soon. Business owners and officers must review vender, service provider and creditor statements to ensure bills and invoices are being paid. Bank and credit card account statements need to be reviewed for unauthorized activity. Accounts need to be reconciled. If your statement balance plus and minus statement charges, interest and outstanding items doesn't match your checkbook balance you need to find out why. Checkbook reconciliation is part of the accounting and bookkeeping business services we offer.

PAYROLL. A form I-9 must be completed for each employee at the time of hire to verify the employee's identity. The actions needed to correct an employee's social security number or last name after-the-fact are more time consuming and expensive than ensuring accurate information up-front. Also the form W-4 and W-4ME for employee withholding must be filled out at the time of hire and updated annually. Links to the forms may be found in the *New Hire Reporting* section at www.barkerbusiness.com. An employee may not claim more withholding allowances than entitled to by the worksheet, unless the employee will have no tax liability and expects a full refund of all withholdings. He or she may then write exempt on the W-4. Keep in mind that if an employee under withholds and gets in arrears with the IRS the IRS may contact the employer and order increased withholding. An employee may change their W-4

as often as the circumstances behind their withholding allowances change. A new W-4 must take effect no later than the first payroll period ending on or after the 30th day after the day the employee gave the employer the W-4 unless it is for next year. If it is for next year it won't take effect until next year. In the state of Maine pay must be paid no less than every 16 days (bi-monthly) with no more than an eight day delay. For payroll assistance contact us. Payroll and payroll tax reporting are among the business services we provide. The beginning of a new quarter or year is an ideal time to change payroll service providers.

ALTERNATIVE MINIMUM TAX (AMT). The AMT dates back to 1969, when tax rates were as high as 91 percent and the wealthy could exercise so many loopholes in the tax code that they could end up paying no tax whatsoever. The AMT was originally intended to only affect 20,000 wealthy taxpayers, insuring they paid some tax. Currently if nothing is done 23 million taxpayers will be affected in 2007, up from 4 million in 2006. It is believed and we were told at the Tax Practitioner Institute in Brewer on October 30th that congress will likely pass or extend some type of legislation to scale back the number of people affected by AMT. However, depending on the timing this could delay the normal processing of tax returns as well as the issuing of refunds and there could be delays early on in the filing season.

CHARITABLE CONTRIBUTIONS. A record in the form of a cancelled check or written receipt or letter from the charity showing the name of the charity, date of contribution and the amount is required for ALL charitable contributions made on or after January 1, 2007.

CAPITAL GAINS will be taxed by the IRS at 0% for taxpayers in the 10% and 15% tax brackets, and 15% for all others in tax years 2008-2010. The gain itself may put you in a higher tax bracket on your other income while part of the gain is taxed at 0% and part at 15%. Maine taxes capital gains as regular income with a top rate of 8.5%.

WIN \$100. Last year's winner of our drawing was John & Nancy Stevens of Lincoln. This year all completed 2007 income tax return clients will be entered and the \$100 winner will be drawn at 5 pm on April 15, 2008.